Tax Hike Initiatives Aim for November Ballot Spots

California voters may face as many as three ballot measures this November that increase income taxes. Although a serious debate is underway over whether California’s chronic budget deficit should be solved in part through temporary tax increases—and also whether public schools and other programs should see their funding restored and increased—most independent observers believe that the presence of more than one tax increase on the ballot would lead to voter confusion and defeat of all such proposals.

Described in more detail below are measures by:

- Governor Edmund G. Brown Jr., who proposes a short-term income and sales tax increase to resolve the state’s chronic deficit;
- philanthropist Molly Munger, who proposes a 12-year income tax increase aimed at supplementing existing education funding; and
- two radical government employee unions, which propose a permanent, confiscatory income tax increase aimed at high-income taxpayers.

Background

California policy makers have struggled with chronic fiscal troubles for the better part of the past decade. Much of the problem has been self-inflicted—spending one-time revenues on ongoing programs, papering-over deficits, and generally refusing to exercise long-term fiscal discipline. These habits were exacerbated by the effects of the recession, which persist to this day.

Two previous attempts by Governor Arnold Schwarzenegger to buy time to bring spending in line with revenues failed.

- In 2004, the Governor gained voter approval for a $15 billion general obligation “deficit” bond, but the Legislature failed to control spending.
- In 2009, in the teeth of the recession, see 2012: Page 4

New Website Helps Employers Navigate Federal Health Care Law

A group of California business organizations has collaborated to launch a first-of-its-kind business-oriented website aimed at providing employers with accurate and easy-to-understand information about the federal Patient Protection and Affordable Care Act.


Tax Credit Calculator

One website feature is a “tax credit calculator” that helps employers estimate savings available under the law. With videos, interactive surveys and an easy-to-use format, the online tool includes numerous elements to serve a variety of preferences for gathering and retaining information.

Current Information

The Health Law Guide for Business website reflects the most significant updates and developments in the process to implement the health care law in California. In 2010, California

2012 Issues Guide Available on Website

The California Chamber of Commerce 2012 Business Issues and Legislative Guide is available now at www.calchamber.com/businessissues. This easy-to-reference publication includes background information synthesized by CalChamber policy advocates on issues that need attention in order to create the certainty businesses need to plan future investments in California jobs, plants or equipment.

New this year is an ebook version of the Guide. As before, pdf files of the

Inside

Seeking Small Business Advocate Nominees: Page 3
Coordinating Disability/Family Leave Benefits Can Maximize Payments

Employees often ask to use accrued paid vacation, sick and paid time off while also collecting state disability insurance or paid family leave insurance. Will this affect how much their payments will be from the Employment Development Department?

While the use of accrued paid vacation will not affect an employee’s state disability insurance (SDI) or paid family leave (PFL) benefits, collecting sick leave or paid time off (PTO) may reduce the amount of benefits an employee can collect.

However, coordinating an employee’s SDI or PFL payments with the use of sick or PTO benefits can allow an employee to collect up to 100% of gross wages while out on leave without reducing any of the SDI/PFL benefits to which the employee is entitled.

Vacation

Pure vacation, when it is not combined with sick leave in some type of PTO plan, generally will not affect SDI/PFL benefits. An employee can collect a full week of vacation pay at the same time he/she is receiving full SDI/PFL benefits, even though this means the employee will end up with more than his/her normal weekly wages.

Note that California law allows an employer to require employees to use up to two weeks of earned but unused vacation leave before starting to receive PFL benefits. The first week applies to the waiting period.

Sick Leave/PTO

Sick leave and PTO both have the potential to reduce the amount of SDI/PFL payments to which an employee is entitled.

For example, if an employee’s normal gross weekly wages are $1,000, and the employee is eligible to receive $550 in SDI or PFL benefits, the employee cannot collect more than $450 in sick or PTO benefits without the Employment Development Department (EDD) reducing the employee’s weekly benefit amount.

Note that during the one-week waiting period after a claim is filed, when the employee is not eligible for any benefits from EDD, the employee may collect the full week’s sick or PTO wages without affecting eligibility for SDI/PFL benefits after the waiting period.

Coordinating Benefits

Coordination of SDI or PFL benefits is a process in which the SDI or PFL weekly benefit amount is paid to the employee by EDD, and the employee is also paid by the employer (usually from sick or PTO wages) that together with the SDI or PFL benefits total up to no more than 100% of the employee’s normal wages.

The advantage of such coordination is the employee does not have his or her SDI/PFL benefits reduced, and can stretch any available sick or PTO banks out over a longer period.

It is the responsibility of the employer and the employee to ensure that the employee is not receiving more than 100% of his/her normal gross wages.

The employer can verify the employee’s benefit amounts by asking for a copy of the Notice of Computation the employee receives from EDD, or EDD will provide this information to the employer on request as long as the employee has authorized the disclosure on his/her application for SDI/PFL.
CalChamber Seeking Nominees for Small Business Advocate Award

The California Chamber of Commerce is seeking nominations for its Small Business Advocate of the Year Award. Each year, the CalChamber recognizes several small business owners who have done an exceptional job with their local, state and national advocacy efforts on behalf of small businesses.

**Application**

The application should include information regarding how the nominee has significantly contributed as an outstanding advocate for small business in any of the following ways:

- Held leadership role or worked on statewide ballot measures;
- Testified before state Legislature;
- Held leadership role or worked on local ballot measures;
- Represented chamber before local government;
- Actively involved in federal legislation.

The application also should identify specific issues the nominee has worked on or advocated during the year.

Additional required materials:

- Describe in approximately 300 words why nominee should be selected.
- News articles or other exhibitions as supporting materials.
- Letter of recommendation from local chamber of commerce president or chairman of the board.

**Deadline**

Award nominations are due to the CalChamber Local Chamber Department by April 15. The nomination form is available on the CalChamber website at [www.calchamber.com/smallbusiness](http://www.calchamber.com/smallbusiness) or may be requested from the Local Chamber Department at (916) 444-6670.

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Small Business Advocate of the Year
Hollywood Businessman Passionate About Reform Projects

When Myron “Sam” Smith came to Hollywood in 1980, he began working with small employers in establishing and servicing their employee benefit programs. It was there that he encountered many employer groups and individuals who did not qualify for or could not afford health insurance, said Smith, president of Genesis Financial/Creative Employee Benefits, Inc.

“I witnessed the tragedy caused by a system that marginalized and discriminated against many who both wanted and needed help,” he said. “It was during this time that I made the commitment to stand for the possibility that all Americans would one day have equal access to quality health care that they could afford. I still stand for that possibility today.”

This principle drives Smith, but it has not stopped him from championing other causes.

Leron Gubler, president of the Hollywood Chamber of Commerce, cites Smith’s keen devotion to many projects when nominating him for a California Chamber of Commerce 2011 Small Business Advocate of the Year award.

Among those projects were: Proposition 11 (the 2008 initiative authorizing the creation of the California Citizens Redistricting Commission); Proposition 14 (the 2010 measure moving California to open primary elections); California Environmental Quality Act reform; and the creation of the Hollywood Chamber Political Action Committee (PAC).

“While Sam is well respected throughout California for his advocacy efforts, it is his passion and commitment to any cause he champions that is apparent to anyone he meets,” Gubler said.

Recognizing Smith’s efforts, the CalChamber named him among recipients of the Small Business Advocate of the Year Award last June.

**Community Involvement**

Smith is currently the chairman of the board to the Hollywood Chamber Community Foundation. He is a past chair of the Hollywood Chamber. He also is chair of the California Association of Health Underwriters Political Action Committee.

As a past candidate for the House of Representatives in the state of Washington, Smith remains active in both politics and the ongoing debate over the future of the U.S. health care delivery system. He is enrolled as a fellow in the Academy of Political Science and is an active participant in the Los Angeles World Affairs Council and Los Angeles Town Hall.

*See Hollywood: Page 7*
Governor Schwarzenegger and the Legislature agreed on a two-year, broad-based tax increase, but the depth of the recession and lack of long-term spending cuts overwhelmed that effort.

Governor Brown entered office in 2011 with a singular focus to solve the state’s budget woes. He also promised in his gubernatorial campaign to not raise taxes without the approval of California voters.

Governor Brown found mixed success in 2011. He gained approval of an on-time budget (abetted by a new constitutional provision that a budget need only a majority legislative vote for passage), which included about $10 billion in spending cuts, many of them ongoing. This has reduced the state’s structural budget deficit.

But Governor Brown’s attempt to place before the people a proposal to extend the then-existing tax increases for another four years fell short. Republicans refused to place such a measure on the ballot without accompanying economic and public pension reforms, and Democrats refused to consider such reforms in return for merely the prospect of placing the question before the voters.

The government employee unions were extremely skeptical that an extension of sales taxes, car taxes and income taxes could ever pass a vote of the people.

Governor’s Proposal

The Governor estimates the existing budget deficit, for this fiscal year and next, at about $9 billion. He proposes to achieve a balanced budget with a mix of further spending cuts, primarily in health and social services, child care and local government assistance, and with a temporary tax increase.

Should these measures be implemented, according to the Governor, the budget would be balanced, education programs would be fully funded, and prior budgetary debt would be repaid over the next five years.

Should his tax proposal fail, he would implement automatic spending cuts in K-12 and higher education, courts and public safety programs.

The chart above shows the recent trend in K-12 spending since before the beginning of the recession. Even if the tax increases are approved, per-pupil funding would fall slightly, although some of the past accounting gimmicks that undermined school budgets would be reversed.

Income Tax Hike

The Governor proposes to increase income tax rates for high earners for five years. The increases would apply as follows:

- For incomes greater than $250,000 (single) and $500,000 (joint), increase the top marginal rate from 9.3% to 10.3%.
- For incomes greater than $300,000 (single) and $600,000 (joint), increase the top marginal rate from 9.3% to 10.8%.
- For incomes greater than $500,000 (single) and $1 million (joint), increase the top marginal rate from 9.3% to 11.3%. The existing 1% surcharge on millionaires for mental health programs is separate from and in addition to this increase.

The rate increases would be in effect for five years, beginning in tax year 2012, through 2016. This means that should voters approve the measure in November, the income tax hikes would be retroactive to January 2012.

Sales Tax Hike

Somewhat offsetting the political allure of “taxing the rich,” the Governor’s package also includes a four-year, half-cent increase in sales taxes. Although this tax is less popular with voters, the Governor needed the revenues to make his budget numbers, and apparently believes he could not reasonably raise income tax rates any higher, certainly without incurring major opposition from business and high-wealth individuals.

The sales tax hike would take effect in January 2013 and continue through December 2016.

According to the Department of Finance, the taxes will together raise up to $7 billion a year, for a total of $31 billion. (The Legislative Analyst believes the income tax will raise substantially less money, based on his belief that capital gains and bonus income will be less robust over the medium term.)

The magnitude of Governor Brown’s tax increase is less than the temporary tax increase adopted by the Legislature and Governor Schwarzenegger in 2009, on an annual basis, but is for a longer term.

Other Income Tax Proposals

Not satisfied with the Governor’s tax proposal, and perhaps sensing an opportunity to appeal to a heavy voter turnout for a presidential election, others have put two additional income tax proposals in circulation, both with the expressed aim to benefit schools.

See Tax: Next Page
Tax Hike Initiatives Aim for November Ballot Spots

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Munger Initiative

The “Our Children, Our Future” measure is sponsored by Molly Munger, a Southern California civil rights attorney and daughter of Charles Munger, who is vice chairman of Berkshire Hathaway.

Ms. Munger has to date provided $900,000 for ballot measure qualification, although she has not yet begun signature gathering because the measure is awaiting title and summary. She has so far resisted pressure from the Brown administration and others to drop her measure.

Ms. Munger’s initiative would raise income taxes by at least $10 billion annually for 12 years beginning in 2013. Key provisions include:

● Across-the-board increases in the income tax, hitting single filers with taxable incomes as low as $17,500, with escalating rates on higher brackets. For example, joint filers with more than $100,000 in taxable income would see a 1.6% additional marginal rate, while joint filers with more than $1 million in taxable income would see a two percentage point marginal rate increase.

● Her preferred version of the measure would dedicate approximately $3 billion a year, through 2016–17, to the state General Fund to help balance the budget and restore the state’s fiscal balance. The remaining $7 billion would be used to augment K-12 and early childhood education.

● Beginning 2017–18, almost all revenues would be dedicated to K-12 and Early Childhood Education programs. To the extent the new tax revenues grow faster than the growth in state per capita personal income, however, the excess would be allocated to the state General Fund.

● Her stated intent is that all revenues collected by this measure would be in addition to the Proposition 98 guarantee, which means that the state would be obligated to finance schools out of the General Fund to meet the guarantee—in good years or bad (unless the requirements were suspended by the Legislature). However, since her measure is a statutory initiative, she may not be able to avoid the constitutional mandate that her revenues count toward the school funding obligation. This means that schools would not only receive all the money raised by the new taxes, but would also be entitled to additional General Fund spending from other state revenues.

Under most circumstances, the new money could not be used to provide salary or benefit increases for existing school employees.

The measure does not include any reforms to school personnel or financial practices, nor does it strengthen any of the existing teacher and school accountability measures.

By 2025, schools will be receiving at least $15 billion to $20 billion in supplemental revenues from this tax, which would make its automatic expiration that year extremely problematic.

Union-Sponsored Initiative

The “Millionaire’s Tax to Restore Funding” is sponsored by the California Federation of Teachers, the California Nurses Association and several liberal activist groups. They are collecting signatures to qualify the initiative for the November ballot.

This measure would raise income taxes permanently by about $4 billion to $6 billion annually. Key provisions include:

● A surcharge of three percentage points on taxable incomes between $1 million and $2 million, and of five points on taxable incomes above $2 million (raising the top rates from 10.3% to 13.3% and 15.3%, respectively).

● As with the current 1% surcharge for mental health programs, this surcharge would be the same for single, joint and head-of-household taxpayers, and would not be indexed for inflation.

● Proceeds would be distributed as follows:
  ✔ K-12 schools, 36%;
  ✔ University of California and California State University, 8% each;
  ✔ Community colleges, 8%;
  ✔ County safety net programs, 25%;
  ✔ County public safety programs, 10%;
  ✔ County road and bridge maintenance, 4.9%;
  ✔ State administrative overhead, 0.1%.

Within these categories, the Legislature could set conditions on how the funds could be spent.

All the new taxes would be subject to the Proposition 98 formula, which means that K-14 education would probably benefit even more as the business cycle drives up state revenues.

Not surprisingly, no programmatic reforms are included in this measure.

The top 1% of income earners already pay 40% of the personal income tax.

Contact: Loren Kaye, President, California Foundation for Commerce and Education

Annual Income Tax Increases from Proposed Initiatives

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A comparison of annual income tax increases on selected taxable income brackets for taxpayers filing jointly.

Source: California Foundation for Commerce and Education
New Website Helps Employers Navigate Federal Health Care Law

From Page 1
became the first state in the nation to enact legislation creating an Affordable Insurance Exchange as required under the federal health care law.

Starting in 2014, the California Health Benefit Exchange will allow individuals and small businesses to compare health plans, get answers to questions, find out if they are eligible for tax credits for private insurance or health programs, and enroll in a health plan that meets their needs.

The Exchange is separated into two programs; the Individual Exchange and the Small Business Health Options Program (SHOP). The SHOP will allow small businesses to band together to create a large purchasing pool so that small business owners will have access to the same lower rates that large employers have enjoyed for decades.

More About the Partnership
The website, funded by The California Endowment, was created by a partnership that includes the Bay Area Council, California Hispanic Chambers of Commerce, California Small Business Development Centers, Pacific Business Group on Health, Silicon Valley Leadership Group, Small Business Majority, Small Business California, and the Los Angeles Area Chamber of Commerce. The partnership aims to address the need of California’s business community to stay informed about the implementation of the law and counter misinformation.

2012 Issues Guide Available on Website

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articles highlighting major issue areas critical to the economy also are available, along with pdfs of the brief summaries of issues expected to arise in 2012.

The Guide also features:
● Biographies of CalChamber policy advocates/executive team;
● Guide to legislative process, including protocol for contacting legislators, glossary of terms;
● How to write an effective lobbying letter;
● Guide to reading a bill;
● Organization chart of the executive branch;
● Tips on talking with the media;
● Recap of CalChamber candidate recruitment/development program.

CalChamber preferred and executive members currently receiving printed copies of Alert will be receiving hard copies of the Guide in the mail. Preferred and executive members not receiving Alert via mail can request a hard copy of the Guide by emailing alert@calchamber.com.

Additional hard copies are available for purchase through the CalChamber store, www.calchamberstore.com.

CalChamber-Sponsored Seminars/Trade Shows

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CalChamber. March 15. (800) 331-8877.
HR 101: Intro to HR Administration Seminar. CalChamber. April 11, Sacramento. (800) 331-8877.
Hiring, Onboarding and Recordkeeping 101. CalChamber. April 12, Sacramento. (800) 331-8877.
Performance Evaluations, Discipline and Termination. CalChamber. April 12, Sacramento. (800) 331-8877.
Pay and Scheduling Non-Exempt Employees Webinar. CalChamber. April 19. (800) 331-8877.

International Trade
Basics of Exporting - Webinars. U.S. Department of Commerce. February 22—Export Documentation; February 23—Colombia and Panama Free Trade Agreements, Market Briefing; March 7—Introduction to Foreign Regulations; March 21—Understanding Free Trade Agreements; April 4—How to Find HS Codes, Duties and Taxes; May 2—Duty Drawbacks; May 16—Taking Advantage of NAFTA; May 23—Understanding Export Controls; May 30—Completing Certificates of Origin; June 13—Financing Your Exports and Getting Paid; June 27—Temporary Exports-Carnets and Other Tools. (800) 872-8723.
Export Training Assistance Program (ETAP). Riverside County Economic Development Agency. February 22, Palm Springs; March 7, Riverside; March 21, Palm Springs; April 4, Riverside. (714) 564-5414.
CeBIT. California STEP. March 6–10, Hannover, Germany.
International Environment Expo. California STEP. March 7–9, Shanghai, China. (310) 973-3161.
COSMOPROF Worldwide. California STEP. March 9–12, Bologna, Italy. (562) 938-5018.
GLOBE 2012. GLOBE. March 14–16, Vancouver, Canada. (800) 274-6097.
WorldBEX. California STEP and WorldBEX Inc. (562) 938-5018.

See CalChamber-Sponsored: Next Page
Hollywood Businessman Passionate About Reform Projects

Opening Political Process

Gubler gives Smith credit for building support for Proposition 11 and Proposition 14. The CalChamber strongly supported both measures and co-chaired the campaign in support of Proposition 11.

In tackling the redistricting initiative, Smith personally made presentations on the measure to chambers throughout Southern California, and urged the Los Angeles and California Association of Health Underwriters (LAAHU and CAHU) to endorse the cause. Smith even appealed to the Los Angeles City Council to garner support.

“I recall Sam’s courage and eloquence, as he stood up to urge the Los Angeles City Council to consider supporting Proposition 11,” said Kathay Feng, executive director of California Common Cause, a main sponsor of the initiative. “As part of that effort, he mobilized dozens of calls from all of his various organizational connections to call city council members to urge support.”

Smith also represented LAAHU and CAHU in dozens of press conferences and media interviews to talk about redistricting reform, and the need for reform in the Legislature if other major reforms, such as health care, were to be achieved.

Smith helped spearhead the creation of the Hollywood Chamber PAC, which hopes to raise $100,000 to support business-friendly candidates in Hollywood.

In many ways, Smith also has dedicated himself to the cause of facilitating access to quality health care. He is on the Board of Directors of Young and Healthy, a nonprofit organization that provides free health care to children of the working poor and which has enrolled more than 21,000 children in the Los Angeles area in the Healthy Families program.

Smith also serves as the longtime co-chair of the Hollywood Chamber’s Health Care Committee, which has conducted several health care-related events for its members, including a 2010 “Business Bootcamp” focused on how health care reform legislation will affect Hollywood small businesses.

Voice Your Opinion

Smith joined the chamber because he enjoys advocacy. Before Hollywood, Smith lived in Washington, where he was actively involved with chambers and saw that chambers possessed the ability to transform a business community.

“The role of the chamber of commerce is to provide a healthy environment for business to flourish, but it must be a healthy environment that reflects the community it lives in,” Smith said.

In order for the chamber to reflect its community, members need to speak up, he said. Chambers look for people passionate about their point of view—even if it does not reflect what other members are passionate about. If individuals fail to speak up on an issue that matters to them, there will be others who will voice different opinions, Smith said.

“If you don’t become an advocate, people will fill the void that you leave,” he said. “The view of the chamber is the view of its members—the view of the members that speak up.”

CalChamber-Sponsored Seminars/Trade Shows

CalChamber Calendar

Environmental Regulation Committee: March 8, La Jolla
Water Resources Committee: March 8, La Jolla
Board of Directors: March 8–9, La Jolla
International Trade Breakfast: March 9, La Jolla
CalChamber Fundraising Committee: March 9, La Jolla
Taking Your Chamber’s PAC to the Next Level: March 16, Sacramento
MANDATORY HARASSMENT PREVENTION TRAINING

Protect your business and employees.

California companies with 50 or more employees are required to provide two hours of sexual harassment prevention training to all supervisors within six months of hire or promotion, and every two years thereafter. CalChamber’s online supervisor course meets AB 1825 training requirements and helps your company avoid work situations that put you at risk for costly lawsuits. Remember, it only takes one—one inappropriate comment, one uncomfortable person, one complaint—for an employee to file a harassment lawsuit.

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